

Ms. Myria A. Polydorou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: AC# 3-CAL-J8 – Calhoun Convalescent Center, Inc.

Dear Ms. Polydorou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract periods beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

CALHOUN CONVALESCENT CENTER, INC.

ST. MATTHEWS, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1999
AC# 3-CAL-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 24, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Calhoun Convalescent Center, Inc., for the contract periods beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Calhoun Convalescent Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Calhoun Convalescent Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 24, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

CALHOUN CONVALESCENT CENTER, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1999
AC# 3-CAL-J8

Interim reimbursement rate (1)	\$84.37
Adjusted reimbursement rate	<u>83.79</u>
Decrease in reimbursement rate	\$ <u><u>.58</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

CALHOUN CONVALESCENT CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning October 1, 1999
AC# 3-CAL-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.01	\$47.33	
Dietary		8.69	9.69	
Laundry/Housekeeping/Maint.		<u>6.83</u>	<u>8.24</u>	
Subtotal	<u>\$4.57</u>	53.53	65.26	\$53.53
Administration & Med. Rec.	<u>\$4.55</u>	<u>7.01</u>	<u>11.56</u>	<u>7.01</u>
Subtotal		60.54	<u>\$76.82</u>	60.54
<u>Costs Not Subject to Standards:</u>				
Utilities		2.31		2.31
Special Services		.58		.58
Medical Supplies & Oxygen		4.08		4.08
Taxes and Insurance		1.11		1.11
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$68.75</u>		68.75
Inflation Factor (3.00%)				2.06
Cost of Capital				8.80
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.41
Cost Incentive				4.57
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.23)
CNA Add-On				.75
Nurse Aid Staff Add-On				<u>1.68</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$83.79</u>

CALHOUN CONVALESCENT CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,484,116	\$ -	\$ -	\$1,484,116
Dietary	339,348	-	-	339,348
Laundry	109,063	-	-	109,063
Housekeeping	100,866	512 (5)	593 (6)	100,785
Maintenance	57,007	282 (5)	326 (6)	56,963
Administration & Medical Records	300,393	226 (5)	26,541 (2) 341 (6)	273,737
Utilities	90,318	446 (5)	516 (6)	90,248
Special Services	8,129	14,343 (1)	-	22,472
Medical Supplies & Oxygen	159,311	-	-	159,311
Taxes & Insurance	43,557	210 (5)	243 (6)	43,524
Legal Fees	4,949	5 (5)	7 (6)	4,947
Cost of Capital	352,931	33,458 (2) 700 (5)	2,672 (3) 3,228 (4) 2,024 (6) 33,458 (7) 1,009 (8) 60 (9) 1,250 (10)	343,388
Subtotal	3,049,988	50,182	72,268	3,027,902

CALHOUN CONVALESCENT CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	37,144	-	-	37,144
Non-Allowable	194,934	2,672 (3) 4,050 (6) 33,458 (7) 1,009 (8) 60 (9) <u>1,250 (10)</u>	14,343 (1) 6,917 (2) 2,381 (5)	213,792
Total Operating Expenses	<u>\$3,282,066</u>	<u>\$92,681</u>	<u>\$95,909</u>	<u>\$3,278,838</u>
TOTAL PATIENT DAYS	<u>39,041</u>	<u>-</u>	<u>-</u>	<u>39,041</u>
TOTAL BEDS	<u>120</u>			

CALHOUN CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Physical Therapy	\$ 5,379	
	Speech Therapy	3,418	
	Occupational Therapy	5,546	
	Nonallowable		\$ 14,343
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
2	Cost of Capital - Interest Expense	33,458	
	Administration		26,541
	Nonallowable		6,917
	To reclassify working capital interest expense to cost of capital and to adjust interest expense for stepdown purposes HIM-15-1, Section 202.2		
3	Nonallowable	2,672	
	Cost of Capital - Amortization Expense		2,672
	To disallow loan cost related to intercompany debt HIM-15-1, Section 202.2		
4	Fixed Assets	12,939	
	Accumulated Depreciation		8,982
	Cost of Capital - Loss on Disposal		3,228
	Loss on Disposal Carryforward		729
	To properly include assets still in use and to remove the related loss on disposal HIM-15-1, Section 130		

CALHOUN CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Housekeeping	512	
	Maintenance	282	
	Administration	226	
	Utilities	446	
	Taxes, Insurance and Licenses	210	
	Legal	5	
	Cost of Capital	700	
	Nonallowable		2,381
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	4,050	
	Housekeeping		593
	Maintenance		326
	Administration		341
	Utilities		516
	Taxes, Insurance and Licenses		243
	Legal		7
	Cost of Capital - Addition		657
	Cost of Capital - Original		1,367
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	33,458	
	Cost of Capital - Interest Expense		33,458
	To remove facility interest expense from allowable cost to comply with the cost of capital policy effective July 1, 1989 State Plan, Attachment 4.19D		
8	Nonallowable	1,009	
	Cost of Capital		1,009
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		

CALHOUN CONVALESCENT CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable Cost of Capital	60	60
	To adjust amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
10	Nonallowable Cost of Capital	1,250	1,250
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$105,620</u>	<u>\$105,620</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

CALHOUN CONVALESCENT CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	3,091,440	1,124,160	
Improvements Since 1981	189,890	-	
Accumulated Depreciation at 9/30/98	<u>(763,280)</u>	<u>(41,308)</u>	
Deemed Depreciated Value	2,518,050	1,082,852	
Market Rate of Return	<u>0.063</u>	<u>0.063</u>	
Total Annual Return	158,637	68,220	
Number of Days in Period	<u>365/365</u>	<u>254/365</u>	
Adjusted Annual Return	158,637	47,474	
Return Applicable to Non-Reimbursable Cost Centers	(880)	(263)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>837</u>	<u>408</u>	
Allowable Annual Return	158,594	47,619	
Depreciation Expense	90,134	41,308	
Amortization Expense	5,297	2,460	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,367)</u>	<u>(657)</u>	<u>Total</u>
Allowable Cost of Capital Expense	252,658	90,730	\$343,388
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>	<u>7,885</u>	<u>39,041</u>
Cost of Capital Per Diem	\$ <u>8.11</u>	\$ <u>11.51</u>	\$ <u>8.80</u>

CALHOUN CONVALESCENT CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-CAL-J8

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 7.79	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$11.51</u>
Reimbursable Cost of Capital Per Diem		\$8.80
Cost of Capital Per Diem		<u>8.80</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>